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S E C R E T SECTION 01 OF 03 HONG KONG 001267

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TAGS: [PREL](#) [PARM](#) [PGOV](#) [ECON](#) [EFIN](#) [MNUC](#) [HK](#) [CH](#) [JA](#) [KN](#) [KS](#)
SUBJECT: HK BANKS PROMISE COOPERATION TO LIMIT NORTH KOREAN
FINANCIAL ACTIVITY

REF: BEIJING 1847

Classified By: Consul General Joe Donovan, Reason 1.4 b/d

11. (C) Summary: Treasury Undersecretary for Terrorism and Financial Intelligence Stuart Levey discussed with Hong Kong banks the risks posed by North Korean deceptive financial conduct and the financial provisions of United Nations Security Council Resolutions (UNSCR) 1718 and 1874 in meetings on July 9. He also shared U.S. concerns about specific channels used by North Korean front companies to avoid sanctions. Secret Service Assistant Director Michael Merritt briefed bankers on North Korea's production of extremely high quality counterfeit U.S. currency (known as "Supernotes"). In individual meetings, bankers from the Hongkong and Shanghai Banking Corporation (HSBC), Hang Seng Bank, and Wing Hang Bank thanked U/S Levey for the briefing and assured him that they closely monitor UN and U.S. Treasury lists and maintain a high standard of scrutiny over transactions linked to North Korea. Banks especially appreciated the specific information on the Hong Kong activities of individuals and banks suspected of violating UN Security Council Resolutions. End Summary.

12. (C) U/S Levey, accompanied by National Security Council Director for Counterproliferation Strategy Charles Lutes, U.S. Secret Service Assistant Director Michael Merritt, Assistant to the Special Agent in Charge Jeffrey Wood, and U.S. Treasury Senior Advisor Christy Clark met with representatives of three of Hong Kong's largest banks, HSBC, Hang Seng Bank, and Wing Hang Bank June 9.

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Deceptive Practices Threaten Financial System Integrity

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13. (C) U/S Levey's primary message to each bank was the same: UN Security Council Resolutions directed at stopping North Korean proliferation of weapons of mass destruction (WMD) contain provisions designed to freeze assets of specifically designated entities and deny financial services that could be used to support North Korea's WMD programs. Although government's role is important, financial institutions man the front-line defenses against the illicit transactions that support North Korea's weapons programs. The North Koreans have engaged in a range of financial activity that opens financial institutions to abuse and have

used deceptive practices including front companies or cut-outs to avoid detection. These practices make it very difficult for banks and others to distinguish between legitimate and illegitimate transactions. Governments can provide lists of known front companies, but the North Koreans can quickly change names and profiles, making it extremely important for financial institutions to aggressively implement sound anti-money laundering (AML) and counter-terrorist financing (CFT) regimes. U/S Levey warned that as UN sanctions begin to tighten even more, North Korea may increasingly resort to the use of cash making vigilance with regard North Korean counterfeit currency even more important.

14. (C) Secret Service Assistant Director Merritt provided examples of North Korean-produced Supernotes and compared them to genuine U.S. \$100 bills, pointing out the almost undetectable differences. He explained that the size of the equipment and the ink used to produce these notes make it incomprehensible that the North Korean government is not aware of this activity. While the amount of Supernotes in circulation is small, the quality of the notes makes them difficult to detect, said Merritt. This should give pause to anyone dealing with large cash transactions of questionable provenance and is just one example of the risks of dealing with North Korean linked entities.

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HSBC Promises Cooperation
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15. (C) U/S Levey and his delegation met with HSBC International Head Paul Leech, Head of Security and Fraud Risk Chris Smith, Head of Legal and Compliance Kenneth Ng, Chief Compliance Officer PM Chan, and Regional Compliance Officer Lily Ho. Leech fully agreed with U/S Levey's points, noting that the challenge for HSBC and other banks is determining which transactions are legitimate. Ho added that HSBC fully complies with all Hong Kong regulations, including UNSCRs approved by the Hong Kong Government. In addition, HSBC has a special team to look at all transactions with suspected links to North Korea. Given the reputational risks, HSBC generally will reject any payments with North Korean linkages. If companies are listed by the UN or by the U.S. Treasury, or are clearly North Korean companies they are easily identified, said Leech. It is much more difficult to discover front companies or individuals who are acting on behalf of the North Koreans.

16. (S) U/S Levey noted that two new entities, trading companies Hong Kong Electronics and Namchongang Trading Corporation (NCG), have been added to the Treasury Office of Foreign Asset Control (OFAC) list. He informed Leech that Treasury information suggests that Tanchon Commercial Bank, a North Korean financial institution with direct links to WMD proliferation, has established a front company called FI or Fortune Sun International Trading, Ltd., that has a banking relationship with HSBC. Treasury also has information that an individual named Alan Wong has procured luxury goods for North Korea in contravention of UNSCRs and his Hong Kong companies Tin Ming and World Base Shipping have accounts at HSBC. HSBC agreed to review its records and report any information to the appropriate Hong Kong and U.S. authorities.

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Hang Seng: No Record of Transactions
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17. (S) Hang Seng Bank Chief Executive Margaret Leung, Chief Compliance Officer Katie Yip, Head of Security Chris Tam, Money Laundering Control Officer Terence Lo, and Deputy Money Laundering Control Officer ay Tam welcomed U/S Levey's delegation to Hang Seng Bank. Leung reviewed her bank's AML procedures and noted that Hang Seng is extremely protective

of its reputation. Any transactions that appear to have links to North Korea are reviewed by a team of compliance officers and suspicious accounts are closed. Hang Seng has had no direct transactions with North Korean entities for many years, she said. Yip confirmed that Hang Seng has no records of transactions with Hong Kong Electronics or Namchongang.

¶8. (S) U/S Levey assured Leung that Treasury has no information linking Hang Seng Bank to these listed entities, but noted that the U.S. has information suggesting that Alan Wong's companies may have accounts at Hang Seng Bank. Identifying these front companies or cut-outs is a challenge for all financial institutions, he said. North Korean entities are sophisticated enough to use multiple channels and to keep transactions small enough to avoid triggering automatic scrutiny of large transactions. Yip promised to review Hang Seng records for any transactions that might have North Korean connections and take appropriate measures.

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Wing Hang: Help Us Help You

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¶9. (S) At Wing Hang Bank, U/S Levey's delegation met with Wing Hang Bank Chief Executive Patrick Fung, Deputy CEO Frank Wang, Assistant General Manager Gerami Cheng, Deputy GM's Stephen Wong and Stephen Leung. Wing Hang's Deputy CEO Wang assured U/S Levey that Wing Hang takes the question of North Korean accounts very seriously and recounted their efforts in 2007 to close an account in their Macau branch held by a North Korean citizen. Although they had no evidence of illicit activity, the bank did not want the exposure. Wang noted the difficulty of identifying DPRK-linked transactions

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by apparently unrelated front-companies and asked how banks like Wing Hang can protect themselves and how they should respond if they do discover such activity. U/S Levey acknowledged the difficulty and encouraged Wing Hang to work closely with Hong Kong regulators and law enforcement when they discover questionable transactions.

¶10. (S) Wang thanked U/S Levey for the information about Alan Wong and his associated companies, but complained that neither U.S. Treasury nor the Hong Kong Monetary Authority provides banks with regular information about potentially suspicious accounts. Without such identifying information, it is almost impossible to differentiate legitimate from illegitimate accounts. U/S Levey replied that such leads are hard to come by, but appreciated Wing Hang's cooperation on those leads we are able to share. Wing Hang Chief Executive Patrick Fung promised that his bank would continue to be vigilant to prevent exposure to illicit North Korean-linked transactions.

¶11. (U) U/S Levey's delegation has cleared this message.

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